

Message Text

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43

ACTION NEA-10

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INFO AMEMBASSY ABU DHABI

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AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY TEHRAN

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BEIRUT PASS BAGHDAD

E.O. 11652: N/A

TAGS: ELTN, EALR, EFIN, EIND: KU

SUBJ: KUWIAT COMPANY TO ESTABLISH CAR/TRUCK ASSEMBLY

PLANTS WITH EUROPEANS

1. KUWAIT AUTOMOBILE AND TRADING CO., A KUWAITI PUBLIC SHAREHOLDING COMPANY ESTABLISHED IN JULY 1973, IS IN SERIOUS AND, PERHAPS, FINAL STAGES OF NEGOTIATIONS WITH RENAULT AND KLOCKNER-HUMBOLT-DEUTSCH TO ESTABLISH CAR AND TRUCK ASSEMBLY PLANTS ADJACENT TO ONE ANOTHER IN KUWAIT. KUWAITIS PLAN TO PRODUCE ANNUALLY ABOUT 1500 RENAULT AUTOS AND 1000 MAGIRUS KHD TRUCKS. THE FACTORY WILL EMPLOY AN ESTIMATED 200 WORKERS. KATC HOPES TO START CONSTRUCTION OF PLANT IN NEXT TWO OR THREE

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MONTHS. GROUP OF EXECS FROM RENAULT WILL ALLEGEDLY VISIT KUWAIT

IN NEXT SEVERAL DAYS TO TRY NAIL DOWN DEAL.

2. EMBOFF TALKED WITH KATC, GENERAL MANAGER, JASSEM AL-BAGHLY ABOUT PROJECT WITH VIEW TO LEARNING WHETHER PROJECT ENJOYED GOK SUPPORT OR WOULD BE CANCELLED AT ELEVENTH HOUR LIKE RECENTLY ABORTED KUWAIT STEEL MILL. AL-BAGHLY CLAIMED GOK HAD IN EFFECT GIVEN FINAL APPROVAL IN JUNE WHEN INDUSTRIAL DEVELOPMENT COMMITTEE AT MIN COMMERCE AND INDUSTRY APPROVED PROJECT. WHEN ASKED WHETHER GOK COUNCIL OF MINISTERS WOULD STILL NOT HAVE TO GIVE APPROVAL, AL-BAGHLY INDICATED THEY HAD IN EFFECT ASSENTED TO PROJECT WHEN THEY GAVE COMPANY PERMISSION TO ISSUE PUBLIC SHARES IN 1973.

3. AL-BAGHLY SAID RENAULTS WOULD FOR MOST PART BE SOLD LOCALLY WHILE MARKET FOR TRUCKS WOULD BE IRAQ, SYRIA, AND SAUDI ARABIA. HE CLAIMED COMPANY WOULD TRY GET ALLOWABLE GOK PROTECTION TARIFF FOR THEIR PRODUCTS (15 PERCENT).

4. SHOULD BE NOTED MAJOR SHAREHOLDERS IN KATC ARE ABDULLAH SALEM AL-ATEEQI, BROTHER OF MINISTER FINANCE AND OIL, WHO ALREADY HAS AGENCIES FOR LOCAL SALE OF RENAULT AND BMW, AND A NUMBER OF SECOND ECHELON MEMBERS ROYAL FAMILY.

5. COMMENT: WE HAVE NOT BEEN FOLLOWING THIS PROJECT CLOSELY BECAUSE OF LACK OF OPPORTUNITIES FOR US COMPANIES, PRESS OF OTHER BUSINESS, AND OUR BELIEF THAT PROJECT WOULD EVENTUALLY DIE A NATURAL DEATH. HOWEVER, IT WOULD NOW APPEAR PROSPECTS ARE GOOD FOR ESTABLISHMENT LOCAL ASSEMBLY PLANT. FACTORS IN ITS FAVOR ARE THAT GOK HAS ALREADY ALLOWED PUBLIC TO BUY SHARES IN COMPANY (KD3.6 MILLION; KD1 EQUALS \$3.38) AND PROJECT, WHILE NOT LIKELY TO DO MUCH FOR KUWAIT'S DEVELOPMENT (AS EVEN AL-BAGHLY ADMITTED SAVINGS OF LOCAL ASSEMBLY WOULD BE MARGINAL), WILL NOT CAUSE SAME PROBLEMS AS STEEL MILL -- POLLUTION, HIGH USE OF GAS AT SUBSIDIZED PRICE, AND REQUIREMENT TO IMPORT RELATIVELY LARGE AMOUNT OF EXPATRIATE LABOR. IF PROJECT IS ESTABLISHED GOK MIGHT TAKE EQUITY POSITION IN COMPANY AS IT HAS WITH NUMBER OF OTHER SIGNIFICANT MANUFACTURING ENTERPRISES IN KUWAIT, BUT WE WOULD STILL EXPECT MAIN THRUST OF GOK-SUPPORTED INDUSTRIAL DEVELOPMENT WILL BE IN AREA OF PETROLEUM REFINING, PETROCHEMICALS AND SHIPPING. WE DO NOT BELIEVE PLANT LIKELY LIMITED OFFICIAL USE

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SERIOUSLY AFFECT SALES OF US AUTOS OR TRUCKS BECAUSE NEITHER RENAULT NOR MAGIRUS ARE POPULAR IN THE LOCAL MARKET, AND WE CAN'T BELIEVE GOVERNMENT WILL GRANT THEM 15 PERCENT PROTECTIVE TARIFF GIVEN LARGE NUMBER OF VEHICLES IMPORTED INTO KUWAIT ANNUALLY.
STOLTZFUS

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